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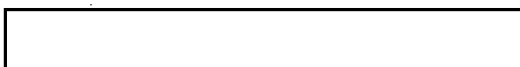
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**FAR EAST****2. British propose Korean unification in five stages:**

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The British position paper for the Korean political conference calls for establishing a unified and neutralized Korea in five successive stages, according to the American embassy in London. The steps would be internationally supervised elections in all of Korea; establishment of an all-Korean government; unification; neutralization guarantees by the great powers plus Korea; and finally withdrawal of foreign troops.

The paper also states that the UN should resist any proposal by the Communists for the formation of a joint North-South Korea government along the lines they have proposed for Germany. If unification is impossible, the British suggest a modus vivendi to permit withdrawal of at least part of the UN forces and the creation of a buffer zone in central Korea under a joint or neutral commission.

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Comment: The latest Communist proposals on Korea and Germany have called for unification through the creation of a joint legislature, which would then formulate plans for "free" elections, and this again seems to be the likely pattern. The Communists may propose, however, that troop withdrawal be accomplished prior to any discussions on unification.

Elections to cover all of Korea would be opposed by President Rhee, who insists that the 100 vacant seats in the South Korean legislature be filled by elections limited to the north. The remaining 150 seats are occupied by assemblymen largely under Rhee's control.

3. Rhee rejects mutual defense pact with Nationalist China:

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On 29 October President Rhee informed Ambassador Briggs that he had rejected as "impractical" a Chinese Nationalist proposal for a mutual defense treaty between Formosa and South Korea, and had suggested instead a joint statement or declaration to the non-Communist Asian peoples. He told the Chinese emissary that, since the Nationalists "occupy no mainland territory," it made little sense to speak of Nationalist assistance to South Korea and that the latter was too preoccupied with fighting aggression to help the Nationalists invade the mainland.

Comment: Chiang had previously stated that since both South Korea and Nationalist China draw their strength from the United States, a bilateral pact would have little value unless it included American guarantees. There is no evidence available to indicate the reason for this Chinese Nationalist initiative.

Both Chiang and Rhee would favor a multi-lateral Pacific pact similar to NATO in which the United States was a party.

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4. Yoshida plans drastic action against South Korea:

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[REDACTED] An official of the Japanese Foreign Ministry on 30 October made an "urgent secret appeal" to the American embassy for help in dissuading Prime Minister Yoshida from ordering retaliation against South Korea for the seizure of Japanese fishing vessels and their crews. He stated that Yoshida had rejected the ministry's advice, and instructed it to prepare plans for the expulsion of the Korean minister and closing of the mission, the use of force, and the arrest of Korean residents in numbers equal to the detained fishermen. These plans would be presented to the cabinet on 3 November.

A second official later informed the embassy that Yoshida had already instructed the foreign minister to ask for the Korean minister's recall. Both officials urged immediate American intercession as the only recourse.

Comment: Both Japan and Korea have indicated to American officials that they desire a renewal of negotiations with Americans participating as official observers. Since preconference concessions probably are a prerequisite for any reasonable assurance of success, drastic Japanese action would seriously jeopardize resumption of the talks. Yoshida's sudden move may be designed to meet expected Diet criticism.

NEAR EAST - AFRICA

5. Political considerations still impede Iranian oil settlement:

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[REDACTED] Prime Minister Zahedi told Ambassador Henderson and Herbert Hoover, Jr. on 28 October that it would be extremely difficult for him to agree to an oil settlement which placed Iranian oil production under foreign control. Negotiations for reestablishment of the Anglo-Iranian Oil Company in Iran would be impossible, although Iran might be willing to sell its products to a group of distributing companies in which AIOC played a minor role.

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Zahedi also emphasized the difficulties he would face if he accepted the formula in force elsewhere in the Near East, which would split the oil profits evenly between Iran and an operating company.

The prime minister suggested that it would be easier for the Iranian government if negotiations were carried on through the International Bank rather than directly with a group of operating companies.

Comment: Zahedi's approach to the oil negotiations appears to reflect essentially the same political considerations as governed Mossadeq's actions. While Zahedi may be willing to reach an agreement on the basis of a commercially feasible arrangement, he would face considerable opposition unless Iranian public opinion were first prepared for it.

6. Iranian minister of court reportedly may resign:

Iranian minister of court Hossein Ala may resign because of personal friction with the shah, [REDACTED]

The shah reportedly reappointed Ala to the post after the fall of Mossadeq in order to "rehabilitate" Ala's prestige, but now wants a less conservative man.

Ala Soheili is reportedly being considered for the post.

Comment: Hossein Ala, a former Iranian ambassador to the United States, has been a staunch supporter of the shah and a capable adviser.

Soheili, who has the reputation of being pro-British, was the Iranian ambassador in London in 1950 and 1951 and remained in England after diplomatic relations were broken off. He returned to Iran following Mossadeq's ouster and immediately announced that he was a candidate to succeed Zahedi as prime minister.

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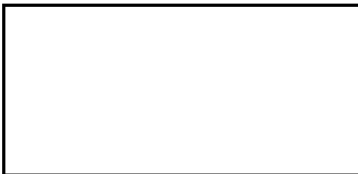
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**EASTERN EUROPE****8. Call-up of Yugoslav reservists apparently continuing:**

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special commissions have been going from village to village in central Yugoslavia, possibly as late as 27 October, to conscript men, horses and vehicles for military use.

Comment: Previous reports have indicated that the call-up of reservists, while extending to various parts of the country, has been concentrated in the northwest area. It has been estimated that as many as 100,000 have already been called up. Yugoslav troop strength in the area around Trieste is currently estimated at 44,000 with an additional 5,000 in Zone B.

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